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# JAPAN'S DEFENSE POLICIES IN THE POST-ONE PERCENT ERA

Summary

Japanese defense policies continued to undergo a series of transformations during 1986. While the country will not feel their full impact for many years, these policies were critical in sustaining the momentum toward fulfilling the leadership's goal of establishing a limited self-defense capacity. Foremost among these changes was the decision to eliminate the policy of restricting total defense spending to one percent of the country's gross national product. This, however, does not mean that Japan will enter an era of unrestrained defense spending or even -- much to the chagrin of the United States -- vastly accelerated spending. Instead, progress toward fulfilling the goals of the 1976 defense outline will continued to come in small but steady steps.

## No News Is Good News

Defense issues have slipped into the background in the last year, except during those brief periods when the one percent issue was broached. Once the immediate conflict was resolved, however, defense quickly receded into the shadows of overall public policy despite the impact of several issues on domestic and bilateral affairs. For example, joint military exercises between the United States and Japan have continued. Japan's involvement in the occasional Pacific Rim exercises (RIMPAC) has expanded -- no doubt a welcome trend in light of the strains on U.S.-New Zealand ties as a result of the latter's rigid stance on the admission of U.S. nuclear-capable vessels to its ports.

An expanded Japanese defense role and enhanced U.S.-Japan cooperation have manifested themselves in other respects. For example, the level of

participation in joint defense operations has been heightened. The air, sea and land forces of both countries took part in a major training drill for the first time in 1986 in the Hokkaido area. The Defense Department's annual burdensharing report -- although critical of Japan's defense efforts -- noted that there had been consistent progress toward meeting the nation's defense goals and cooperating with the United States on common concerns.

Although not widely publicized, one of these was the completion and approval of a joint sealane defense study. While the contents are classified, press reports suggest that it details various contingency plans for defending the sealanes approaching Japan against serious threats, presumably the Soviet Union. The government has also continued a series of tentative yet steady contacts with defense officials from other countries, adding another dimension to overall security policies.

Similarly, the National Defense Council was reorganized last year into a stronger National Security Council. One of the key changes in this government reform was the inclusion of officials in the new council who have responsibility for local police and emergency forces. By including these officials in defense policy and crisis management groups, Tokyo is eliminating one of the most irritating potential problems facing the country: the absence of any legal basis for giving priority to the country's Self-Defense Forces during a short-term or major mobilization.

There also has been increased diplomatic activity. In response to the continued expansion of Soviet influence in Asia and the Pacific, officials have launched a series of initiatives to help maintain stability in the region. One, the "Kuranari plan," expands aid to South Pacific island nations. The decision was announced by Foreign Minister Tadashi Kuranari during his January 1987 tour of the region. This visit came in concert with a tour of Eastern European nations by Prime Minister Yasuhiro Nakasone. While the goals of that tour were mixed, clearly one of them was to demonstrate to the world Japan's growing diplomatic stature, particularly with regard to the Soviet Union.

With the yen's appreciation, Japan's expenditures in dollar terms have skyrocketed, making it the seventh-largest defense power in terms of spending, up a notch from 1985. The Japan Defense Agency is now spending almost $25 billion annually instead of the $18.4 billion figure recorded only a few months earlier. This exchange rate oddity has helped alleviate some of the political pressure on Tokyo. Suddenly, critics are mollified because the dollar figures appear more significant, even though they are unchanged in yen terms and in relation to the country's overall economic strength. The strong yen has also enabled Japan to assume more of the costs of maintaining U.S. forces stationed there.

To fully appreciate the scope of these trends, a brief review of the developments of last year is in order. Primary attention is focused on four areas: the one percent spending issue; participation in the Strategic Defense Initiative; U.S.-Japan technology cooperation; and the FSX debate.

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The One Percent Decision

The most important of these was the cabinet's decision to eliminate the longstanding policy restricting total defense expenditures to one percent of the country's gross national product, a policy implemented in 1976 on a temporary basis by the Miki government to assure defense critics that the adoption of an overall defense outline would not result in rampant militarism. (See the accompanying appendix for the actual force and equipment levels to be achieved in fulfilling the goals of the outline.)

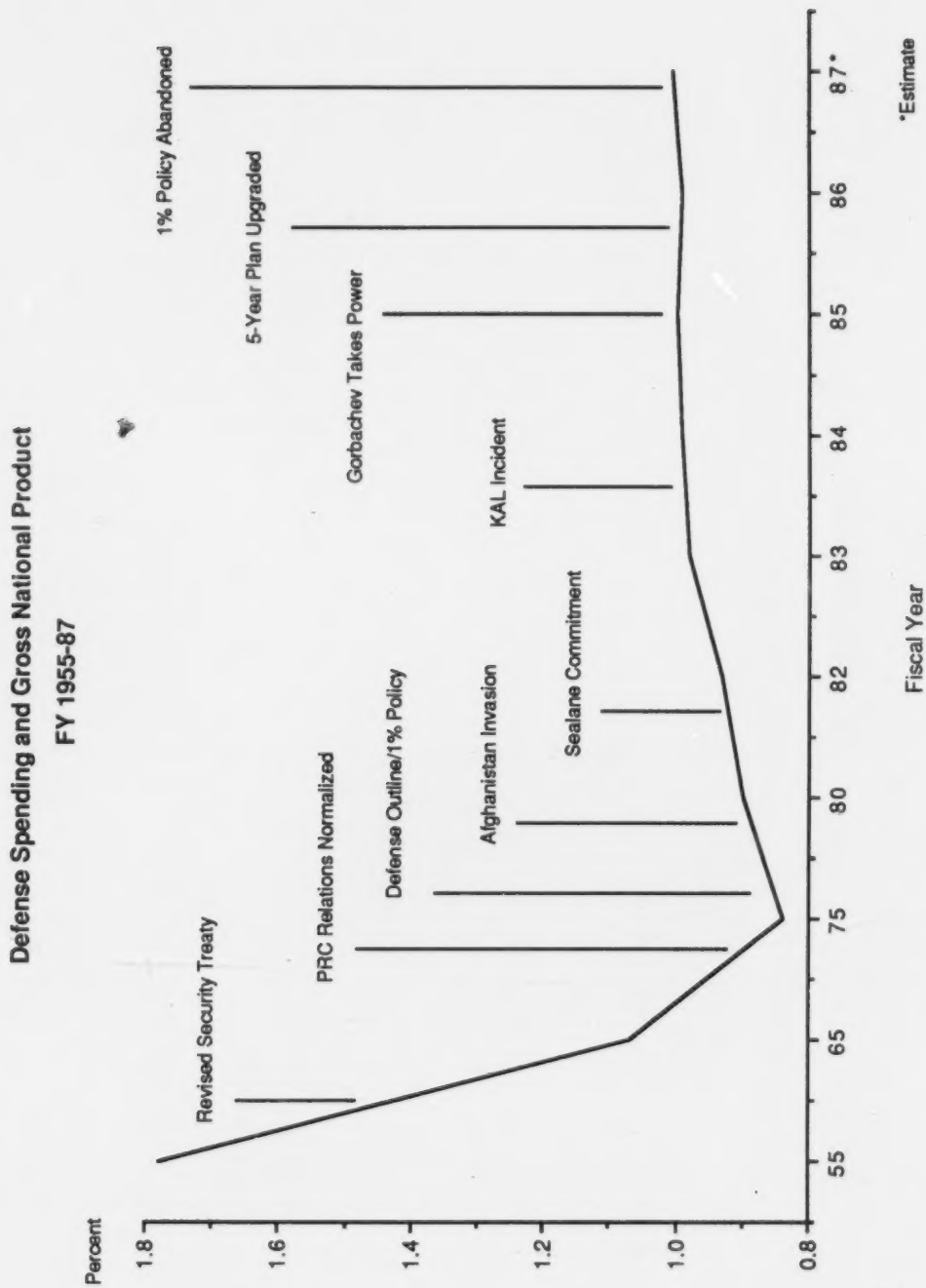
The specific event that precipitated the decision to abandon the spending limit was the adoption in 1985 of a new five-year procurement plan for the Japan Defense Agency. Prime Minister Nakasone sought to scrap the limit outright and institute the five-year estimate as the guiding principle for future defense spending decisions. As these plans became clearer, opposition within the LDP increased, forcing Mr. Nakasone to hedge his strategy and accept an upgrading of the status of the five-year estimate while still retaining an informal one percent guideline to influence budgetary decisions. This reassured critics of defense spending that future budgets would not go unrestrained but still begged the question of appropriate guidelines for future defense spending policies.

This decision simply postponed the inevitable for another year. The estimate called for total spending in the neighborhood of just over one percent of GNP, depending on economic growth rates. At the time, GNP growth showed signs of weakening. Indeed, the 1985 total would have exceeded the one percent cap had it not been for the periodic readjustment of the base used by government economists to calculate GNP. Mr. Nakasone -- facing a slight but sudden dip in his popularity ratings as the issue heated up -- accepted the short-term strategy of a higher status for the five-year program with the knowledge that it would force the one percent issue at a later date.

The inherent conflicts of the new arrangement quickly became evident when the government approved the fiscal 1986 defense budget. Although the JDA requested more funds, the cabinet approved a 6.58 percent hike to launch the first year of the new estimate; again alloting larger increases to defense and to the second element in its comprehensive security scheme -- official development assistance -- than to other agencies. Spending rose from Y3.14 trillion ($22.4 billion at Y140=$1.00) to Y3.34 trillion ($23.9 billion) for the April 1, 1986-March 31, 1987 period, a real increase of 5.4 percent. This maintained total defense spending at just under one percent of the country's gross national product, contingent on the government's optimistic economic forecasts.

While the total was not what the agency had sought, it got the first year of the expansion off on the right foot. It is still debatable whether the program will reach its goals, however. According to Japanese analysts, annual average budget increases of 7.9 percent will be needed. Although comparisons with the previous five-year estimate may not be appropriate, it is nevertheless significant to note that the agency achieved only 40 percent of its earlier goals.

When the press reported that JDA had asked for a 7.5 percent increase for fiscal 1987, it was clear that the spending issue would once again become the center of attention. Weakening economic conditions, continued pressure


Defense Spending and Gross National Product
FY 1955-87
Percent
1.8
1.6
1.4
1.2
1.0
0.8
55
65
75
80
82
83
84
85
86
87*
Fiscal Year
*Estimate
Revised Security Treaty
PRC Relations Normalized
Defense Outline/1% Policy
Afghanistan Invasion
Sealane Commitment
KAL Incident
Gorbachev Takes Power
5-Year Plan Upgraded
1% Policy Abandoned

from Washington to spend more on defense and congressional threats to link trade and defense issues made it unlikely that Tokyo would be able to avoid the issue any longer.

One factor changed the outlook considerably: the Liberal Democratic Party's massive victory in upper and lower house Diet elections last July. The convincing win -- interpreted as an endorsement of Mr. Nakasone's policies -- strengthened his hand on the defense issue even though it was clear that voter sensitivity to increased defense spending was still present. The 300-plus majority in the lower house, however, enhanced the ruling party's ability to push the FY 1987 defense budget through the Diet. Anti-defense forces immediately warned the LDP against arrogance in its dealings with the opposition, but in some respects the only relevant questions involved the impact of the government's fiscal austerity drive and the weak economic outlook. With the July 1986 elections, the opposition party factor became a minor concern.

Finance ministry officials made it clear that they intended to reduce government outlays by leaking to the press a 4 percent proposed spending hike for FY 1987, well below JDA's 7 percent proposal. MOF hoped to limit increases based on reduced expenses -- fuel costs, for example -- resulting from lower domestic prices and the strengthened yen. JDA, however, used the same argument in calling for bigger outlays, noting that reduced costs could enable the Self-Defense Forces to expand inflight training times, which have fallen gradually over the last decade in part because of higher fuel prices and tight budgets.

The issue moved slowly toward resolution with the announcement by the cabinet in December 1986 of the initial FY 1987 budget increasing defense expenditures to Y3.5 trillion ($25.1 billion) -- a 5.2 percent increase over FY 1986's initial budget -- and bringing the total to slightly over one percent. The National Defense Council, a group of key government officials chaired by the prime minister, approved the decision as consistent with the spirit of the one percent policy. The cabinet formally scrapped the one percent limit on January 24, 1987 when it announced that the procurement goals of the 1976 outline would dictate spending levels rather than any arbitrary figure; a major victory for the prime minister and other supporters of his defense policies.

Public reaction toward these developments was mixed. The opposition predictably denounced the changes, but failed to press the issue in the Diet because of the furor over the government's proposed sales tax. In fact, the dispute over this proposal -- a value-added tax that would have offset anticipated income-tax cuts -- virtually smothered the one percent issue. Indeed, some observers suggest that the government intentionally pressed the one percent issue at that time in hopes that the decision would be overlooked in the confusion.

International reaction to the move was mixed. A well-circulated article by former secretary of state Henry Kissinger criticized increased Japanese defense spending, suggesting that it was an inherently destabilizing influence in Asia and the Pacific and calling for increased aid spending instead. JDA officials and leaders of the "boeizoku" -- the unofficial defense policy group in the Diet -- discounted the Kissinger statement as either an overreaction or a total misunderstanding of Japan's policies and intentions.

Significantly, Japan's comprehensive security concept -- in which the government attempts to contribute to global stability through both defense and aid -- appears to have gained greater credibility in Washington as a result of the new decision. In the past, Tokyo's offers of increased aid were often received in Washington as an effort to avoid its defense commitments. Even though the thrust and pace of Japanese defense spending policies is not likely to change over the coming decade, simply eliminating what was perceived in Washington as an artificially contrived excuse to avoid defense responsibilities has made Japan's aid program appear a more responsible and legitimate component of a larger global strategy.

One question remains unanswered; the likelihood of revising the procurement goals annexed to the 1976 outline. Although Mr. Nakasone made it clear that the five-year plan would not be affected by the recent decision, there has been debate on the overall force and equipment levels that were stipulated ten years ago. Procurement thus far has been aimed primarily at making qualitative changes in the force levels outlined in 1976; discussion might now focus on the need to make quantitative changes, given the current international climate and the Soviet's increased military power in Asia and the Pacific.

For the time being the budget enables the Nakasone government and its successors to shift more of the defense burden to the air and naval components of the Self-Defense Forces and to continue to enhance SDF sustainability. In the FY 1987 budget, for example, 36 percent will be allocated to purchases of military equipment, a significant hike. Almost 44 percent will be earmarked for personnel costs. The ground forces will receive 36.6 percent of the total, the air SDF 25.5 percent and the navy 24.5 percent. These figures suggest a gradual shift to naval strength to support the government's policy of "meeting a threat at sea."

Severe political, budgetary and economic pressures will continue to moderate defense spending in the long term but eliminating the 1 percent policy has great symbolic importance. Nevertheless, observers suggest that the spirit of the old policy dictates that total defense spending remain within 1.2-1.5 percent of GNP, hardly rampant militarism but still a sizable increase given present funding levels.

SDI: Another Big Step

Although the details regarding Japan's participation in the Strategic Defense Initiative have not been ironed out (although press reports suggest that they are imminent), Tokyo did take the step in late 1986 of announcing its willingness to allow companies and government research groups to participate in SDI-related research. That move ended months of discussions between the two countries on the principle of participation. Although Japan was criticized for dragging its feet on SDI, the prolonged delays helped diffuse the considerable public and political opposition to the program.

Three Japanese business-government delegations toured the United States before the government task force on SDI participation submitted its favorable recommendation. The third delegation charged with reviewing policy options, which visited U.S. government offices and private sector interests involved in SDI research, was the only one of the three to include private sector representatives. This report went to top cabinet officials in January 1986, bringing a

final decision one step closer. In some respects, this delegation was considered the most important since it included technical specialists capable of evaluating the program's potential impact on Japan's scientific and technological base. The delegates were convinced that SDI participation would strengthen the nation's economic structure and would not drain valuable resources, an important factor in making a final determination.

Almost a full year had passed since the Department of Defense first invited U.S. allies to join the controversial research and development program. Of the countries that indicated support or interest, Japan's investigation has been the most methodical. Tokyo weighed a variety of political considerations, including the impact on its relations with other nations in the region; the policy ramifications given domestic restrictions on defense policies; and the lack of uniform support for the program in policymaking circles.

The government formally announced its decision in September 1986 following the return of JDA director general Yuko Kurihara from policy discussions in Washington. There followed new rounds of talks aimed at resolving the private sector's concerns about the repatriation of technology generated under SDI contracts by Japanese firms. Of equal concern were U.S. fears over maintaining the secrecy of potentially classified information.

At the same time there were indications that Congress was taking a second look at foreign participation in the SDI program. One example was Senate approval of an amendment sponsored by John Glenn (D, Ohio) that restricted foreign inputs that could be "reasonably performed" by American firms. Although the amendment also provided for waivers under certain circumstances, Sen. Glenn's intention was clear. "Let us spend American dollars for the benefit of Americans, here at home," he told his colleagues in the Senate, "where we need to develop our own scientific infrastructure so that we can compete." He also questioned the wisdom of what he viewed as an administration attempt to buy international support for SDI with the promise of lucrative research contracts, insisting that SDI should be approached in the same spirit of burden-sharing that guides U.S. defense policies in other areas. The current approach, he said, was "like the kid with a sack of candy who buys friends temporarily." (The provision ultimately was deleted in a House-Senate conference, although a similar amendment that embodied many of the same ideas was added in a sense of Congress resolution.)

Japan also has concerns. Business leaders fear that companies might be unable to benefit commercially from their involvement in the program if DOD places severe restrictions on the repatriation of SDI-generated technology. The country's anti-nuclear policies have come under severe stress as a result of the SDI discussions -- one reason for the government's methodical approach to the issue. Neighboring countries -- especially the Soviet Union -- have been highly critical of the project, although they appear to have accepted unofficially the reality that Japan will have at least a minor role in the program.

Signs of Stress: Technology Transfers

Sen. Glenn's position reflects very widespread fears of relying on foreign sources for the technology needed to preserve the U.S. industrial base and its ability to defend the country and its allies. The most critical example

concerns semiconductor technology, mirroring tensions in the private sector. Perhaps the most discouraging development in terms of enhancing U.S.-Japan technological cooperation in defense was a report by a task force of the Defense Science Board on U.S. military dependence on foreign sources for semiconductors.

Calling integrated circuits the "industrial rice" of modern industry, the task force urged the establishment of a government-funded effort in cooperation with the private sector to preserve the U.S. manufacturing base in the face of growing competition from Japan. The study said that in every area of semiconductor production except one -- linear (analog) nonsilicon products -- the United States trailed or was losing its technological edge to Japan. In response, it called for a comprehensive strategy to reverse this trend, and some members went so far as to urge a strict "buy America" or quota policy to ensure against U.S. dependence on foreign sources for integrated circuits.

The proposed government support -- which calls for about $200 million annually -- would set up a Semiconductor Manufacturing Technology Institute. The institute would develop, demonstrate and advance the technology for efficient, high-yield manufacturing of advanced semiconductor devices. The center is not envisioned as a production facility although it would have limited capacity to produce selected Defense Department items. Rather, it is anticipated that the facility -- in cooperation with business, government and academia -- will provide an influx of expertise to the sagging semiconductor industrial base. In addition, the authors called for expanded research and development funding in semiconductors, higher discretionary funds for DOD to "underpin healthy industrial research and development," and the establishment of eight centers at selected universities to improve semiconductor design and manufacturing techniques in the private sector.

It is significant that after years of emphasizing technology transfers from Japan, the report focused on Japan as the primary threat to the U.S. industry's viability and failed to consider technology transfers that might help revitalize U.S. semiconductor makers. The determinedly go-it-alone tone of the report implied that, at best, Japan's presence in the United States defense establishment -- in the form of semiconductor sales -- was a major concern to DSB members; at worst, it suggested that Japanese firms were not welcome in the United States.

Although observers familiar with the report and with the DSB emphasized that it was primarily the work of an outside group of advisors -- most of whom represented competing commercial interests -- many Japanese observers could not help but be confused about American intentions. This reaction was particularly strong since only months before the same Defense Science Board -- albeit with different task force members -- had been exploring means of facilitating bilateral cooperation and technology exchanges.

A more chilling episode for Japanese interests, however, was the attempted buyout of the Fairchild Semiconductor Corp. by Fujitsu, Ltd., a major semiconductor producer seeking a U.S. production base for advanced chips. The DSB report was released only a few weeks before Fujitsu received what it evidently interpreted as signals by DOD that its presence was clearly unwanted in the United States. While there have been other instances of alleged DOD interference in Japanese companies' attempts to acquire certain high-tech companies

based in the United States, the Fairchild case may have been the most emotional and potentially the most damaging to the overall goal of U.S.-Japan cooperation in defense areas.

Fairchild's situation was simple. It was a producer of specialized chips for the DOD and therefore was deemed by many government officials as essential to national security. One problem was that its foreign owner -- Schlumberger Ltd. -- would no longer continue to pump funds into the failing firm, which also reportedly suffered from declining technology. Failing to find a suitable American firm to take up its banner, Fairchild was courted by Fujitsu in October 1986. The plan called for Fujitsu to acquire an 80 percent stake in Fairchild.

The proposed merger quickly raised national security concerns because of Farichild's DOD-related production. As the issue dragged on, Commerce Secretary Malcolm Baldrige announced his opposition to the proposal, a reflection of the semiconductor industry's concerns about letting the Japanese firm establish a foothold in the U.S. market and gain access to Fairchild's research and development. DOD Secretary Caspar Weinberger reportedly opposed the sale as well on national security grounds.

The combination of bad press, the release earlier in the year of DOD's annual defense report to the Congress stressing the need to preserve the U.S. industrial base, and the DSB semiconductor report led Fujitsu to drop the proposal on March 16, 1987, although the two firms will continue to cooperate through a series of joint ventures. National security advocates in the United States cheered the results. Supporters of the deal lamented a lost opportunity to secure technology transfers through a merger. (Some informed sources suggest that negative comments from DOD were leaked by opponents of the takeover who decided to amplify their views through selective press leaks.) Most distressing of all to advocates of the sale was that DOD never seriously exercised its potentially positive leverage by testing Fujitsu's willingness to provide other inputs in exchange for unimpeded acquisition of Fairchild.

In any event, the case could well go into the gunny sack of high-tech troubles that reportedly includes similar disappointing experiences by Kyocera Corp. and other Japanese firms anxious to acquire U.S. companies deemed essential to national security. The extent of this restriction means that the budding efforts to further bilateral technological cooperation could be set back if not totally poisoned.

The Trade-Defense Linkage: FSX

Perhaps no issue has been as contentious as JDA's review of alternatives to replace the outdated F-1 aircraft with a new generation of fighter support planes -- dubbed the FSX project. Reports in the Japanese and American media regarding FSX developments often have been contradictory and heated, but that only attests to the emotions surrounding the issue in the two countries and the fact that it is in a state of flux.

JDA has been reviewing its final options for months. There are essentially three possibilities: outright purchase of a foreign-made aircraft; licensed production or coproduction of a foreign aircraft or a derivative thereof; or domestic production of a Japanese-designed plane. Of the aircraft

mentioned, the McDonnell Douglas F-18, General Dynamics F-16 and the Panavia Tornado -- a European product -- are said to be in the running for the prize, with the F-18 favored and the Tornado a distant third. Industry sources say that domestic production is based on the F-18 design to a significant degree. Japanese prime contractors overwhelmingly favor domestic production, as do significant elements within the government bureaucracy, although there are officials who favor a U.S. system for political and economic reasons.

Press reports over the last two years have suggested that JDA was on the verge of accepting virtually every possibility, but it is clear that domestic industry lobbying has been so strong -- and increasingly overt -- that the leadership is under great pressure to produce a plane with the greatest domestic content possible. Some overseas observers have suggested that the fact that the decision has been reported on any number of occasions over the last two years to be imminent indicates the effectiveness of domestic proponents in fending off foreign contenders. The longer the issue takes to resolve, they reason, the more appealing the domestic option becomes since each year reduces the effective lifespan of the F-18 and other foreign contenders. Furthermore, proponents of a domestic option can cite increased trade frictions as evidence of the United States' unreliability and as justification for going it alone.

According to a June 6, 1986 report in the Asahi Shimbun, one of Japan's largest and most respected dailies, JDA ruled out a support fighter designed and produced entirely by Japanese industry as costly and beyond the technological capabilities of domestic producers. However, citing JDA sources, the Asahi report suggested that a delegation sent to the United States earlier that year had doubts about the safety and performance of the front-running F-18 and was dissatisfied with the "Super Hornet" option -- an enhanced F-18 designed to meet JDA specifications. This led to proposals for joint development, with Japanese contractors in the lead and American firms participating in various phases of the design and production of engines and avionics for the new fighter.

Missouri Republican John Danforth threw a monkey wrench into the dispute in March 1987 when he warned that U.S.-Japan relations would be strained further if JDA chose the domestic production option. The blast came as JDA received what media reports characterized as final briefings by the three aircraft manufacturers. Sen. Danforth called on administration officials to urge Japan to purchase a U.S. system to help offset its huge trade surplus with this country, and said that it was both less costly and less risky. The Society of Japanese Aerospace Companies responded to the senator bluntly, expressing full confidence in the domestic industry's ability to "develop and design the FSX by ourselves" and at a lower cost.

The spat has not threatened to overflow into the trade area any further -- for now -- but the Danforth move clearly added a new dimension to the dispute. Although individuals involved have spoken of the trade implications, they preferred to look at it solely in terms of defense-related issues. In the meantime, the infusion of the trade rhetoric helps cloud other -- perhaps more important -- issues, including two-way technology transfers that might be realized through the FSX program.

There is another aspect of the FSX case that reflects somewhat contradictory attitudes in Japan toward defense. The non-aggressiveness of the Japanese public cannot be questioned, but there is an unmistakable element of pride in reporting the nation's progress toward domestic production of a first-rate fighter aircraft for the Self-Defense Forces. Even the Asahi -- normally a harsh critic of government defense policies -- colors its reports on the FSX with consistently patriotic overtones.

For many nations the production of an advanced aircraft is equated with national prestige and status in the international community. That criticism can be made even of Sweden -- hardly a serious threat to global peace and more commonly associated with loftier causes such as the Nobel Peace Prize. But in Japan's case the issue is more sensitive given its history and the peculiar circumstances facing defense planners. Such sentiments are significant and will continue to be a factor in the security relationship for decades to come.

Critics of Japan's defense industry question whether Tokyo abandoned its one percent spending ceiling in order to satisfy the domestic defense industry or larger defense procurement needs. Proponents of an American alternative to the FSX insist that it is by far a less costly option than domestic production. Citing the F-15 experience (which many in Japanese industry dispute), U.S. contractors and government officials see precious financial resources being sucked up by a bottomless FSX pit if domestic production is chosen, when tight budgets could be used far more efficiently by acquiring a U.S. fighter. This is another argument familiar to other countries, but it is especially emotional in light of Japan's limited defense spending in relation to its overall economic strength.

Conclusion

Once JDA decides on the FSX, most of the visible issues between the United States and Japan will have been resolved -- for better or worse -- for the next two years. Japan will be in the initial stages of producing a foreign derivative of a fighter support aircraft or a home-grown product. Technology transfer arrangements are on the books and are being implemented -- satisfactorily or unsatisfactorily. Decisions regarding production and deployment of Aegis destroyers to support Japanese naval forces in enforcing a 1,000-mile sealane defense will have been implemented. The five-year procurement plan will still have two more years to go, and the review of that plan -- unlike previous years -- may not take place until its final year, although the practice has been to conduct a review in the third year.

In many respects it will be possible to characterize Japan's defense policies and U.S.-Japan defense relations as business as usual in the coming months. Issues similar in many respects to the FSX case -- for example, the introduction of a new AWACS system -- could easily emerge, again testing the bilateral defense relationship. The outlook for such issues is likely to be murky, in part because they certainly will evolve after the present administration has left town. A Democratic leadership or a different Republican administration could very well view these issues in a new light.

What will become more troublesome to both Japan and the United States will be cases such as Fujitsu-Fairchild. Several forces will combine to complicate efforts to manage the political and economic relationship while

furthering defense ties. On one hand, Washington encourages foreign inputs, while on the other it discourages such a presence; the determined -- many in the United States would say relentless -- drive of Japanese companies to secure overseas markets and assure access to the most advanced technologies available is matched by the preference in both countries for domestic procurement.

Resolving these challenges will be difficult since they ultimately bring into question whether the United States and Japan are allies or competitors. The answer, of course, is that they are both, and defense issues increasingly will provoke confrontations between the two aspects. Thus far both countries have managed to minimize the conflicts, but it would seriously complicate the bilateral and domestic Japanese defense outlook if they become unmanageable.

For further information, contact Michael W. Chinworth.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Table 1: Japan's Initial Defense Budget, FY 1955-FY 1987

(in billions of yen)

| Fiscal Year | Budget | Percent Change | Budget/GNP Ratio |
|---|---|---|---|
| 1955 | Y134.9 | -3.3% | 1.78 |
| 1965 | 301.4 | 9.6 | 1.07 |
| 1975 | 1,327.3 | 21.4 | 0.84 |
| 1980 | 2,230.2 | 6.5 | 0.90 |
| 1981 | 2,400.0 | 7.6 | 0.91 |
| 1982 | 2,586.1 | 7.8 | 0.93 |
| 1983 | 2,754.2 | 6.5 | 0.98 |
| 1984 | 2,934.7 | 6.6 | 0.99 |
| 1985 | 3,137.2 | 6.9 | 0.99 |
| 1986 | 3,343.6 | 6.6 | 0.99 |
| 1987 | 3,517.4 | 5.2 | 1.00 |

Source: Japan Defense Agency, Defense of Japan, 1985; Japan Times, December 31, 1986.

Table 2: Allocation of Japan's Defense Expenditures (Initial Budget), FY 1981-FY 1986

| Category | FY 1982 | FY 1983 | FY 1984 | FY 1985 | FY 1986 |
|---|---|---|---|---|---|
| Personnel | 46.6% | 44.5% | 44.6% | 45.1% | 45.1 |
| Supplies | 53.4 | 55.5 | 55.4 | 54.9 | 54.9 |
| Equipment acquisition | 22.4 | 24.9 | 26.3 | 26.2 | 26.9 |
| Research and development | 1.1 | 1.1 | 1.2 | 1.6 | 1.7 |
| Facility improvement | 2.3 | 1.9 | 1.3 | 1.4 | 1.7 |
| Maintenance | 15.8 | 16.3 | 15.5 | 15.1 | 14.4 |
| Base countermeasures | 10.4 | 10.0 | 9.7 | 9.5 | 9.0 |
| Other | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 |
| Expenditures (billion yen) | Y2,586.1 | Y2,754.2 | Y2,934.7 | Y3,137.2 | Y3,343.6 |

Source: Japan Defense Agency, Defense of Japan, 1986

## Chronology of Events Affecting U.S.-Japan Security Affairs
## September 1985 - March 1987

### 1985

9/4 Japan agrees to the first transfer of military technology to the U.S.

9/18 Cabinet approves FY 1986-90 procurement plan, upgrading its status from planning document to the level of an official government program but retaining the limit on total defense expenditures to one percent of GNP.

10/2 U.S.-Japan working-level talks on technology transfers in Washington.

10/4 Economic Planning Agency announces that defense expenditures for FY 1985, ending March 31, 1986, will remain within one percent of Japan's gross national product.

10/7 West German defense minister Manfred Woerner meets Japan Defense Agency director general Koichi Kato in Tokyo.

10/10 Foreign Minister Shintaro Abe meets top officials in China.

11/5 U.S. and European representatives stress military sales to help rectify trade imbalances with Japan.

11/19 Reagan-Gorbachev summit begins.

11/22 Japan, Soviet Union and the U.S. sign aviation safety pact to prevent recurrence of the 1983 KAL 007 incident, in which a civilian airliner was shot down by Soviet interceptors.

12/27 Detailed arrangements for bilateral technology transfers are concluded.

### 1986

1/6 Abe visits Washington to discuss SDI, FY 86 defense budget.

1/13 Eighth regular Japan-U.S. Systems and Technology Forum meets in Washington.

1/15 Soviet Foreign Minister Eduard Shevardnadze visits Tokyo, the first such trip in a decade. U.S.-Japan security subcommittee meets in Hawaii. Second Japanese SDI delegation departs for the United States.

2/5 U.S. Defense Department submits its annual report to Congress, underscoring Japan's role in Asia's security.

2/6 Soviet plane violates Japanese air space.

2/24 First U.S.-Japan integrated command post exercise takes place.

3/31 Third Japanese SDI delegation arrives in the United States.

4/1 Secretary of Defense Caspar Weinberger leaves for five-nation Asian tour.

4/12 Nakasone begins two days of meetings with top U.S. officials.

4/23 Japanese SDI delegation briefs government officials in Tokyo.

5/4 Tokyo summit.

5/13 Kato declares that SDI participation is consistent with Japan's defense posture.

5/19 Maritime Self-Defense Forces take part in RIMPAC exercises.

5/26 Diet enacts legislation reorganizing the National Defense Council.

5/29 Abe goes to Moscow, reciprocating the January Shevardnadze visit.

6/2 Diet lower house is dissolved. Upper and lower house elections are set for July 6.

6/9 Foreign Ministry reports that Japan's official development assistance fell 12.1 percent to $3.8 billion in 1985 -- the final year of a five-year ODA program -- due chiefly to a sharp drop in multilateral ODA.

7/6 LDP achieves landslide victory in Diet elections.
7/27 New cabinet is formed.
8/8 JDA releases annual defense white paper.
8/24 Protestors meet the USS New Jersey -- armed with nuclear capable Tomahawk missiles -- on its arrival in Sasebo.
8/25 Joint U.S.-Japan air drill commences off coast of Miyazaki prefecture.
9/1 Government adopts preliminary budget guidelines, with the largest increases going to JDA and ODA programs.
9/2 Japanese government officially approves participation in SDI.
9/4 Moscow blasts the Japanese move to join in SDI research saying that it would not produce "any positive results for Japan's security."
9/8 Nakasone relieves Education Minister Fujio of his position after he refused to resign voluntarily after making controversial remarks regarding Japan's pre-war occupation of Korea.
9/11 LDP formally extends Nakasone's term as party president one more year.
9/16 Nakasone says Japan's decision to participate in SDI research does not violate Diet resolution banning space development for military purposes.
10/6 Nakasone repeats the government's intention to pass an anti-espionage law due to his perception that Japan is a "spies' paradise." (Subsequent efforts to reach an acceptable draft within the LDP fail).
10/9 Foreign Minister Tadashi Kuranari says that the Japanese government has informed the U.S. that it wants Soviet nuclear force reductions in Asia to parallel those in Western Europe.
10/11 Reagan and Gorbachev begin a two-day session on arms reductions in Reykjavik, Iceland.
10/16 Japan elected a nonpermanent member of the U.N. Security Council for a two-year term.
10/19 Vietnam's Minister of Foreign Affairs Vo Dong Giang meets Kuranari in Tokyo. Japan and the Soviet Union exchange messages marking the 30th anniversary of the restoration of diplomatic relations.
10/27 The first Japan-U.S. joint military exercise involving the army, navy and air forces of both countries begins in Hokkaido area.
11/11 Philippine President Corazon Aquino calls for increased aid during her four-day visit to Japan.
12/5 Kuranari confirms that Gorbachev will not visit Japan in January but hopes to visit as soon as possible.
12/16 The Washington Post reports that Nakasone offered his assistance to President Reagan in securing release of American hostages in the Middle East. Nakasone subsequently denied knowledge of U.S. arms deals with Iran.
12/22 Japanese government sets FY 1987 economic growth estimate at 3.5 percent. JDA director general Yuko Kurihara warns against potential linkage of trade and defense issues in U.S. relations. U.S.S.R. criticizes planned defense spending increases by Japan.
12/23 Quoting government sources, Japanese news reports indicate that the government will negotiate higher payments for maintenance of U.S. bases in Japan.
12/24 U.S. government representatives sign a joint study on sealane defense. Japanese officials had initialed the agreement on December 19.
12/29 Senior cabinet officials increase proposed FY 1987 budget for defense, bringing total defense spending above 1 percent of GNP. The cabinet delays consideration of new spending limits until early 1987.

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1/6 Kuranari begins 11-day tour of five South Pacific nations.
1/7 Chinese Vice Premier Tian Jiyun begins 10-day visit to Tokyo.
1/8 U.S.-Japan security subcommittee meets in Hawaii. Japan-Australia ministerial committee meeting commences.
1/11 Nakasone begins a six-day tour of Eastern Europe; LDP Secretary General Takeshita begins a five-day visit to China.
1/13 Chinese leader Deng Xiaoping expresses worry over proposed increases in Japan's defense budget.
1/14 Kuranari announces "Pacific Doctrine" in Fiji.
1/21 U.S., Japanese officials discuss disarmament and arms control concerns.
1/24 Cabinet officially removes one percent of GNP defense spending ceiling.
2/1 Foreign Ministry sources are quoted in Japanese press reports as saying that Japan will participate in SDI under formulas similar to those concluded by West Germany and other participants.
2/5 Sen. Lloyd Bentsen (D, Tex.) introduces Omnibus Trade Act, which accuses Japan of practicing "adversarial trade."
2/9 Plans are announced for the deployment of a second F-16 squadron at Misawa later this year.
2/12 The Defense Science Board releases a study on U.S. defense dependence on foreign semiconductor production.
2/16 A delegation of Democratic Socialist Party Diet members leaves for Washington to exchange views on defense, exchange rates.
2/17 Kuranari declares that U.S. space station must be utilized for non-military purposes only if Japan participates.
2/19 South Korean army chief of staff Pak Hui Tong meets with JDA officials in Tokyo.
2/23 Major newspaper polls indicate falling support for Nakasone cabinet among voters. Junya Yano, chairman of Komeito, arrives in Washington for meetings with top officials.
2/27 Foreign Ministry officials express concerns over the Reagan administration's "broad interpretation" of 1972 antiballistic missile treaty.
3/5 According to Japanese press reports, JDA officials state that the U.S. hopes for joint development of the next generation support fighter aircraft (FSX). Sen. John Danforth (R, Mo.) warns that Japanese domestic development of the FSX would further impair relations with the U.S.
3/6 Secretary of State George Shultz arrives in Tokyo for talks with Nakasone and Kuranari.
3/12 Commerce Secretary Malcolm Balridge states opposition to Fujitsu's attempt to acquire Fairchild Semiconductor Corp.
3/16 Fujitsu drops plans to acquire Fairchild.
3/20 JDA announces that its Technical Research and Development Institute will be reorganized in July to speed the development of next-generation military technologies.
3/31 Press reports quote Kurihara as saying that Japan wants to build its next generation of fighter planes in cooperation with the U.S.

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